Rescue helicopters for stranded economies

By J. Bradford DeLong
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For countries where nominal interest rates are at or near zero, fiscal stimulus should be a no-brainer. As long as the interest rate at which a government borrows is less than the sum of inflation, labor-force growth, and labor-productivity growth, the amortization cost of extra liabilities will be negative. Meanwhile, the upside of extra spending could be significant. The Keynesian fiscal multiplier for large industrial economies or for coordinated expansions is believed to be roughly two – meaning that an extra dollar of fiscal expansion would boost real GDP by about two dollars.

Some point to the risk that, once the economy recovers and interest rates rise, governments will fail to make the appropriate adjustments to fiscal policy. But this argument is specious. Governments that wish to pursue bad policies will do so no matter what decisions are made today. And to the extent that this risk exists at all, it is offset by the very tangible economic benefits of stimulus: improved labor-force skills, higher business investment, faster business-model development, and new, useful infrastructure.

Aversion to fiscal expansion reflects raw ideology, not pragmatic considerations. Few competent economists have failed to conclude that the United States, Germany, and the United Kingdom have large enough fiscal multipliers, strong enough spillovers of infrastructure, investment, and other demand-boosting programs, and sufficient financial space to make substantially more expansionary policies optimal.

The question is not whether, but how much, fiscal stimulus is appropriate. Answering that should be a simple, technocratic cost-benefit calculation. And yet, in most countries that would benefit from fiscal stimulus, nothing is being done.

Faced with this, my former teacher and long-time colleague Barry Eichengreen has become positively alarmed: “The world economy is visibly sinking, and the policymakers who are supposed to be its stewards are tying themselves in knots.”

Germany’s experience with hyperinflation in the 1920s and its subsequent embrace of “ordoliberalism,” in which the government avoids interfering in the economy, has “rendered Germans allergic to macroeconomics,” Eichengreen writes. Similarly, in the US, deep-rooted suspicion of federal government power – especially in the South, where it was used to abolish slavery and enforce civil rights – has resulted in hostility to countercyclical macroeconomic policy.

“Ideological and political prejudices deeply rooted in history will have to be overcome to end the current stagnation,” Eichengreen concludes. “If an extended period of depressed growth following a crisis isn’t the right moment to challenge them, then when is?”

Sadly, this debate is no longer an intellectual discussion – if it ever was. As a result, a flanking move might be required. It is time for central banks to assume responsibility and implement “helicopter money,” putting cash directly into the hands of people who will spend it.

Proponents of austerity in Germany, the US, and the UK are suspicious of central banks for the same ideological reasons they are averse to deficit-spending legislatures. But their objections to central banks are far weaker. That is because, as David Glasner, an economist at the Federal Trade Commission, has pointed out, attempts to erect an automatic monetary system – whether based on the gold standard, Milton Friedman’s k-percent rule, or the Stanford University economist John Taylor’s

"rules-based monetary policy" – have all crashed and burned spectacularly.

History has refuted the University of Chicago economist Henry Simons's call for "rules rather than authorities" in monetary policy. The design task in monetary policy is not to construct rules but, instead, to establish authorities with sensible objectives, values, and technocratic competence.

The actions of central banks have always been "fiscal policy" in a very real sense, simply because their interventions alter the present value of future government principal and interest payments. But when it comes to promoting economic recovery, central banks can certainly do more. They have immense regulatory powers to require that the banks under their supervision hold capital, lend to classes of borrowers that have historically faced discrimination, and serve the communities in which they are embedded. And they have clever lawyers.

Helicopter money could take many forms. Its exact shape will depend on the legal structure of a given central bank, and on the extent to which its administrators are willing to take actions that go beyond their traditional authority (with the implicit or explicit promise that the rest of the government will turn a blind eye).

Success in rebooting the economy will depend on ensuring that the extra cash goes into the hands of those who are constrained in their spending by low incomes and a lack of collateral assets. And, as with governments engaged in fiscal stimulus, the key to a positive outcome will be to rule out even a smidgeon of fear that repayment obligations will become onerous in any way.

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